



KARACHI STOCK EXCHANGE LIMITED
 Stock Exchange Building, Stock Exchange Road, Karachi-74000
 Phones: 111-001-122

KSE/N-5639

October 10, 2013

NOTICE FOR ALL TREC HOLDERS/SHAREHOLDERS

ACCOUNTING TREATMENT AND ITS TAX IMPLICATION ON DEMUTUALIZATION OF KARACHI STOCK EXCHANGE

The above mentioned subject matter was discussed in the Demutualization Committee meeting held on 10th September 2013 where it was accordingly decided to sought legal opinion on tax implication from our Tax Consultants M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants which is reproduced below:

Ahmed A. Mitha
 Chief Financial Officer

From: Hassaan.Naeem@pk.ey.com [mailto:Hassaan.Naeem@pk.ey.com]
Sent: Tuesday, October 1, 2013 6:52 PM
To: Ahmed Ali Mitha
Cc: Beena Raza; Haider.A.Patel@pk.ey.com; Nadeem Naqvi; Muhammad Umair Ilyas; Nadeem Naqvi; Adnan.Ghaffar@pk.ey.com
Subject: Re: Tax Implication on Conversion of Membership Card to Shares and TREC of Corporatised Stock Exchange

Dear Mitha Shb

We have reviewed the contents of your email below and set-out first our understanding of the issue before we deliberate on the required opinion.

Our understanding:

- Upon demutualization of KSE, the existing members who held trading rights and membership cards were allotted shares of KSE and Trading Right Entitlement Certificates (TREC) to enable them continue shares trading at KSE
- The value of shares along with TREC remained the same i.e. where the membership card together with trading rights was acquired by the member, say, for Rs.5 million, his shares and TREC in the demutualised entity stood at Rs:5 million
- In view of the above, no gain or loss arose to the member upon conversion of membership card and trading rights to KSE shares together with TREC
- The Technical Release issued by ICAP (Accounting for Exchange of Membership card with Shares and Trading Right Entitlement Certificate on Demutualization of the Stock Exchanges) states:

"Nature and value of the asset given up (membership card) is similar to the nature and value of the asset acquired (Shares and TREC). Therefore, exchange of assets will not result in any gain or loss. Further, it can be argued that de-recognition of the membership card has not occurred because the rights of the cardholder were not lost at any point during the exchange"

- In this connection, paragraph 45 of IAS 38, *inter-alia* states that where the fair value of neither the asset received nor the asset given up can be reliably measured, the cost of the asset received should be measured at the carrying amount of the asset given up, and no gain or loss shall arise
- KSE is therefore of the view that there will not be any gain or loss recorded in the accounts of TREC holders on conversion of their membership card at the time of acquisition of shares and TREC of KSE, after its demutualization
- It follows that the value of shares and TREC will be different for every TREC holder based on his membership card's value shown in his accounts before demutualization
- It has been apprehended that the above mentioned approach may attract sub section (3) of section 111 of the Income Tax Ordinance, 2001 ("Ordinance") which reads as under -

"Where the declared cost of any investment or valuable article or the declared amount of expenditure of a person is less than reasonable cost of the investment or the valuable article, or the reasonable amount of the expenditure, the Commissioner may, having regard to all the circumstances, include the difference in the person's income chargeable to